

Cover: A partial view of an enlarged finished 5-inch silicon wafer containing several hundred ROM's, or Read Only Memory circuits. This is a good example of Commodore's very large scale integrated (VLSI) circuit manufacturing capability.

Commodore International Limited is a fully integrated manufacturer of advanced microcomputer systems, semiconductor components, consumer electronic products, and office equipment. Manufacturing facilities are located in North America, Europe and the Far East. Marketing is worldwide. Research expenditures comprise over 5% of sales and are devoted primarily to the development of new products using solid state integrated circuitry, computer technology and consumer electronics.

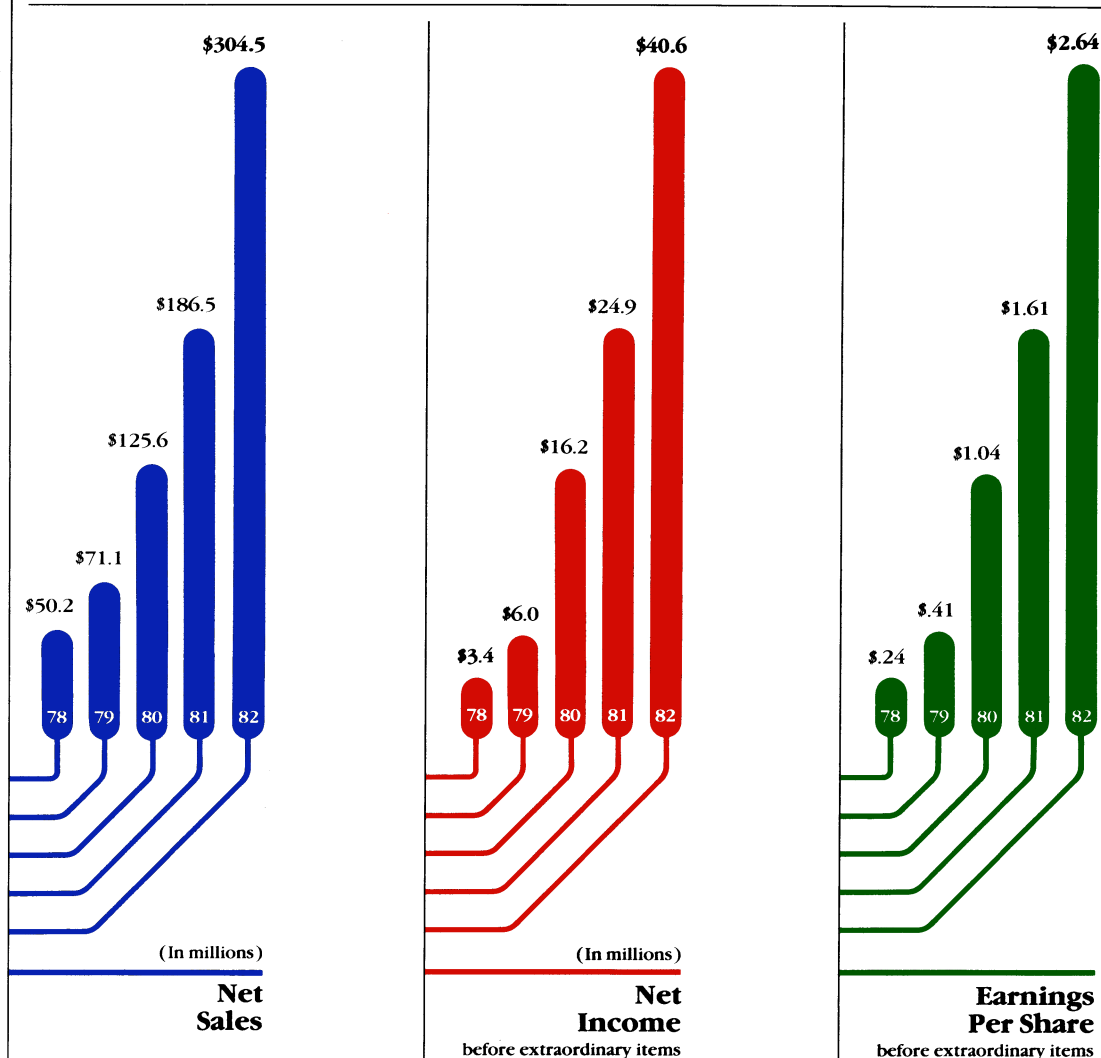
Financial Highlights

(000's omitted except per share amounts)

Year Ended 30 June	1982	1981	1980	% Change 1982 vs. 1981
Net Sales	\$304,500	\$186,500	\$125,600	+ 63.3%
Gross Profit Margin	47.8%	44.4%	40.3%	—
Net Profit Margin ⁽¹⁾	13.3%	13.4%	12.9%	—
Net Income ⁽¹⁾	\$ 40,600	\$ 24,900	\$ 16,200	+ 63.1%
Shareholders' Equity	\$105,900	\$ 61,600	\$ 35,500	+ 71.9%
Earnings Per Share ^{(1) (2)}	\$ 2.64	\$ 1.61	\$ 1.04	+ 64.0%
Average Shares Outstanding ⁽²⁾	15,400	15,460	15,593	—
Quarterly Earnings Per Share^{(1) (2)}	1981-82	1980-81	1979-80	
September 30	\$.47	\$.29	\$.20	
December 31	.61	.38	.20	
March 31	.71	.44	.25	
June 30	.85	.50	.39	
Total	\$ 2.64	\$ 1.61	\$ 1.04	

(1) Includes credit for reversal of United Kingdom taxes of \$1,700,000 (\$.11 per share) in fiscal 1980 and excludes extraordinary items.

(2) All per share figures adjusted for stock splits made during fiscal 1982, 1981 and 1980.



To Our Shareholders

The fiscal year ended June 30, 1982 represented the fifth consecutive year of record sales, net income and earnings per share for your Company.

Last year's Annual Report addressed itself, in considerable detail, to the evolution of the Commodore of today—a major vertically integrated manufacturer of microcomputer systems. This year's Annual Report will highlight Commodore's Computer Systems and Semiconductor Component Divisions which, combined, accounted for almost 95% of fiscal 1982 sales and all of the operating income.

Sales Gain 63%; Net Income Up 63%; Earnings Per Share Rise 64%.

For the year ended June 30, 1982, Commodore's sales were a record \$304,500,000. This represents a gain of 63% over the previous record sales of \$186,500,000 achieved in fiscal 1981. Net income before extraordinary items rose 63% to a record \$40,600,000 compared to \$24,900,000 in fiscal 1981. Most important, fiscal 1982 earnings per share before extraordinary items were \$2.64, or 64% above the record \$1.61 registered in fiscal 1981.

Computer Systems Sales

Fiscal 1982 sales of microcomputer systems accounted for 75% of overall Commodore sales compared to 71% in fiscal 1981 and 66% in fiscal 1980.

Overall worldwide microcomputer systems sales in fiscal 1982 rose to a record \$228,200,000, or 72% above the then record \$132,500,000 achieved in fiscal 1981.

In Europe and other non-U.S. countries, Commodore continued to maintain its leading market position in the sale of microcomputer systems. These sales rose to a record \$135,000,000 from \$100,400,000 in fiscal 1981. While this represented a respectable 34% gain, it should be noted that actual sales in currencies other than U.S. dollars increased by 49% over fiscal 1981, with the lower dollar volume of these sales reflecting the impact of a very strong U.S. dollar on foreign currency exchange rates.

In the United States, significant progress was made as the sale of Commodore microcomputer systems rose to \$93,200,000, or 190% above the record \$32,100,000 registered in fiscal 1981. These microcomputer system sales also constituted 41% of the Company's total worldwide

microcomputer sales as compared to 24% in fiscal 1981. As a result of this growth, which was more than twice the overall microcomputer industry growth rate, Commodore was able to increase its percentage share of the very important United States market.

Semiconductor Sales

Commodore's Semiconductor Components Division continues to serve as the nucleus of the Company's vertically integrated structure. Many of the microprocessors and ROM's produced by Commodore's semiconductor facilities were utilized by Commodore in its own microcomputer systems and software cartridges. The remainder of the production from this division was sold to outside customers and accounted for 20% of Commodore's overall sales.

The sales of semiconductor component devices to outside customers in fiscal 1982 were a record \$59,800,000, or 71% above the record \$34,900,000 achieved in fiscal 1981. Considering that the past year was one when overall industry shipments of semiconductor devices declined, your Company is quite proud of this achievement.

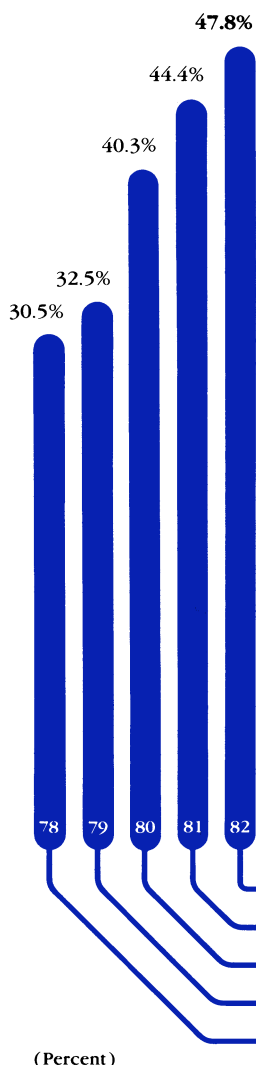
For the new fiscal year, Commodore's own internal requirements for very large scale integrated circuits for use in our existing and new microcomputer systems, peripheral devices and software cartridges are expected to rise significantly. As a result, our semiconductor sales to outside customers are expected to decline as a far greater percentage of our semiconductor production is earmarked for use in Commodore microcomputer systems.

Consumer Products/Office Equipment

These two divisions, combined, contributed approximately 5% to Commodore's fiscal 1982 sales with revenues of \$16,500,000 in 1982 compared to \$19,100,000 in 1981.

Commodore's Office Equipment Division continued to enjoy a leading market position in Canada, while at the same time continuing to supply Commodore with thousands of metal housings used in the Company's microcomputer systems.

The Consumer Products Division sells digital watches and electronic thermostats which provide Commodore with an outlet for some of its liquid crystal display (LCD) output. In turn, this indirectly funds Commodore's research and



(Percent)

**Gross Profit
Margin**

development efforts in perfecting large area liquid crystal displays that one day will be utilized in the Company's microcomputer systems.

Expanded Microcomputer Line

As a result of the development by Commodore of a new family of semiconductor devices, an extended microcomputer systems product line with improved price-to-performance features will be introduced shortly.

The number of microcomputer systems offered by Commodore will expand from the three offered in fiscal 1982 to eight in the near future. To the current PET, CBM and VIC 20 series, we will add five new systems—the Max Machine, Commodore 64, P500, B700, and BX700 microcomputers. Commodore's customers will now have a broader choice of microcomputers for home, educational, personal and small business use. This new family of microcomputers will offer the Commodore customer a broad alternative in price and performance with color, larger memory size, portability, and many other improved features not found in the PET or CBM series. These new generation microcomputers are a very important supplement to our PET and CBM series.

Financial Strength

Commodore finished fiscal 1982 in the strongest financial condition in its history.

During fiscal 1982 Commodore achieved a record gross profit margin of 47.8%. This helped in achieving an impressive return on average shareholders' equity of 52.9%, the third year in a row in which this return has been in excess of 50%. These important measurements of operating strength are illustrated on the two graphs to the left.

The Balance Sheet of Commodore is in excellent condition. Liquidity, as measured by the current ratio and net working capital, is at an all-time high. As of June 30, 1982, current assets of \$182,300,000 compared to current liabilities of \$83,200,000 resulting in a current ratio of 2.2 to 1 and a net working capital position of \$99,100,000. This compares favorably to fiscal year-end 1981 when the current ratio was also 2.2 to 1, but the net working capital position was only \$61,500,000.

Long-term funds necessary to finance the Company's growth were more than adequate to keep pace with the growth in sales. At fiscal year-end 1982, long-term debt was \$44,400,000 and compared to shareholders' equity of \$105,900,000.

Therefore, long-term debt constituted only 29.5% of total capital, an improvement over the 34.2% at fiscal year-end 1981.

Capital expenditures during 1982 amounted to \$25,400,000 compared with \$16,200,000 in fiscal 1981. Nearly \$10,000,000 of this year's additions to manufacturing equipment were financed through five year capital leases at interest rates ranging from 6.18% to 9.18%.

Fiscal 1983 Outlook

The outlook for fiscal 1983 appears quite good. The worldwide markets for microcomputer systems are expected to expand further in fiscal 1983.

While Commodore maintained its leading share of the European market in fiscal 1982, its percentage share of the United States microcomputer market rose in fiscal 1982. Both trends are continuing into the new fiscal year, while the Commodore VIC 20 home computer is gaining sales momentum.

As noted earlier, Commodore gained market share in the United States during fiscal 1982. Based upon the microcomputer sales trends Commodore experienced in the final half of fiscal 1982, together with the expanded number of new microcomputer systems Commodore will be able to offer customers in early fiscal 1983, we are confident that the sale of Commodore microcomputer systems to each user category served—home, educational, personal and small business, will increase in the new fiscal year and your Company will gain further percentage share of the United States market.

On behalf of the management of Commodore, we would like to thank you—our shareholders, employees, customers and suppliers—for being a very important part of the Commodore success. Your loyalty is deeply appreciated.

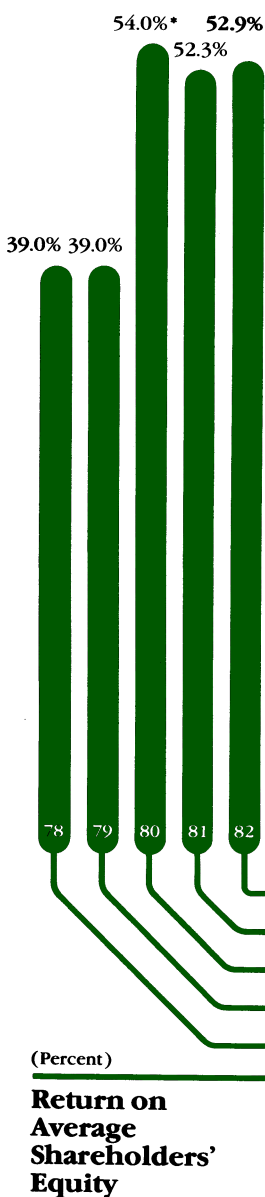
Sincerely,

Irving Gould *Jack Tramiel*

Irving Gould
Chairman of
the Board

Jack Tramiel
President and
Chief Executive Officer

September 15, 1982



*Excludes credit for reversal of United Kingdom taxes.

Home Market

MAX Machine. To begin shipments in Winter, 1982. Full color, 40 column, 2.5K of built-in memory storage capacity.

VIC 20. Began shipments in 1981. Full color, 22 column, 5K of built-in memory.

Educational Market

PET. Began shipments in 1978. Monochrome, 40 column, 64K (to be increased from 16K and 32K in Winter, 1982) of built-in memory.

SuperPET. Began shipments in 1981. Monochrome, 80 column, 96K of built-in memory.



Personal Market

Commodore 64. Began shipments in July, 1982. Full color, 40 column, 64K of built-in memory.



P500. To begin shipments in Winter, 1982. Full color, 40 column, 128K of built-in memory.



Business Market

B500. To begin shipments in Winter, 1982. Monochrome, 80 column, 128K of built-in memory.

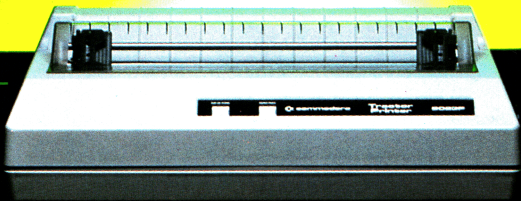


B700 and BX700. To begin shipments in Winter, 1982. Monochrome, 80 column, 128K and 256K of built-in memory, respectively. The B700 has built-in dual disk drives with 340K of additional memory, while the BX700 is a 16 bit dual microprocessor system with dual double density disk drives with 680K of additional memory storage capacity.

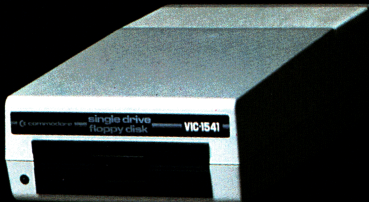


Peripherals

The 8023 printer is one of several offered by Commodore for use with its microcomputer systems.



The 9090 5 1/4 inch hard disk drive is based on Winchester technology and is capable of storing up to 9 megabytes, or approximately 9 million characters of information.



The 1541 and 1540 (not pictured) floppy disk drives are intended for use with the Commodore 64 and VIC 20 microcomputers and are capable of storing up to 170K bytes, or approximately 170,000 characters of information.



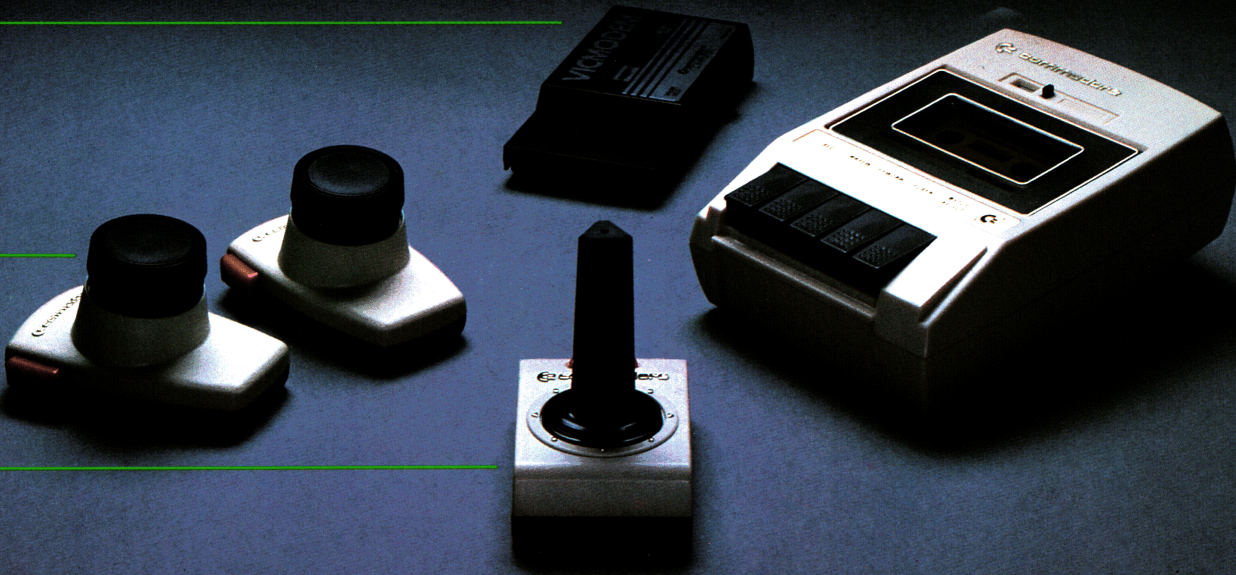
The 8250 dual floppy disk drive is capable of storing up to 2 megabytes of information.

Far lower right: The inexpensive Datasette permits the user of a VIC 20 to record, store and play back information on simple audio cassettes as compared to diskettes which require the use of a disk drive.

The VIC Modem is a low-priced modem that permits interface of the VIC 20 or Commodore 64, via telephone lines, to a central data base from which information can be derived.

The two "paddles" pictured permit the VIC 20 and its operator to interface when using educational and entertainment cartridges or cassette software.

The "joystick" is also used in both educational and entertainment applications with the VIC 20, Commodore 64 or MAX Machine.



The Products



Software cartridges, as pictured above, are expected to play an increasingly important role in Commodore's product mix, as are the various peripheral devices pictured to the left which form the nucleus of an integrated microcomputer system.

Pictured on the first two of the preceding three pages are microcomputer systems designed and manufactured by Commodore, while the opposite page pictures the more important peripheral products.

Each of the microcomputer systems pictured on pages 4 and 5 is captioned with more important features and specifications, i.e., introduction date, built-in user memory, and so forth.

The microcomputers are further grouped into major user categories, i.e., home, educational, personal, and small business. It should be noted that although the picture denotes the primary use, any given microcomputer might well be purchased for use in more than a single category. In this regard, a brief discussion of the four main user categories is presented.

Home

The great majority of microcomputers purchased for home use are priced at under \$500. They are light-weight and usually connect to a standard television set. The principal use is education and entertainment. This market sector is rapidly growing with the microcomputer now occupying the prime display space at many mass merchandise outlets. Commodore's recent introduction of a low cost modem that permits the microcomputer to access and retrieve information from data bases and data banks is expected to broaden significantly the appeal of this sector of the microcomputer market to a virtually universal level.

Personal

Microcomputers are used by individuals at the work desk in both the office and the home. This type of microcomputer generally costs from \$500-\$2,000 and may or may not have a built-in display monitor, the latter adding to the bulk of the computer and dictating the degree of portability. Although used for both education and entertainment, they also have extensive utility in

practical business applications. Typical uses would be financial spread sheets, word processing and data file management. The typical user would add peripherals, i.e., a floppy disk drive and printer, to meet the requirements of a specific application.

Education

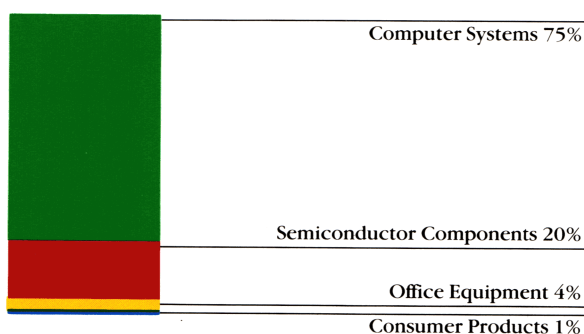
Microcomputers are purchased by schools both to complement and enhance the educational curriculum. During the 1977-1981 period, microcomputers typically cost schools \$1,000 each. Many schools with limited budgets have since shifted their purchases towards the lower-priced \$500 home computers. Microcomputers used in schools are about equally divided between those with built-in displays and those which must be connected to television sets or monitors.

Small Business

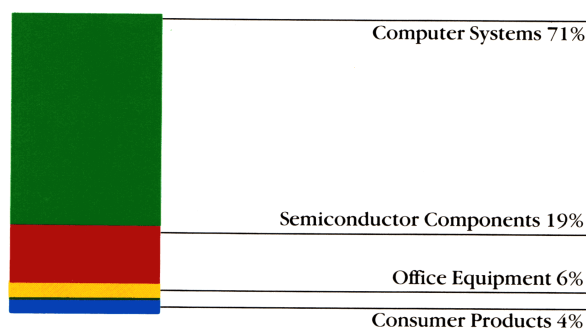
Business oriented microcomputer systems cost from \$2,000-\$10,000 each and generally include sizable user memory, from 48K to 256K RAM, and, on newer models, built-in floppy disk drives for extended mass memory storage. These microcomputers are typically used for traditional general office, business and accounting functions. A small business microcomputer is often shared by multiple users.

As noted earlier, there is an overlap into possible ways a given microcomputer might be used. The Commodore VIC 20 is primarily used in the home, but is also used extensively by schools. Similarly, the Commodore 64 is designed principally for personal use but is also an excellent educational or high-end home computer. Commodore believes it is important to offer a range of products through the market sectors with a high degree of upward compatibility in both software and peripherals. This enables our user base to grow and expand within our range of products and to, therefore, capitalize on their initial investment in a Commodore microcomputer system.

1982 Net Sales by Division



1981 Net Sales by Division



Research and Development

In fiscal 1982, as shown by the graph to the left, Commodore's research and development program expenditures rose more than 100% to a record \$17.9 million, or 5.9% of sales, from \$8.4 million, or 4.5% of sales in fiscal 1981. The fiscal 1982 research and development outlay, in fact, exceeded the amount Commodore spent on similar activities in the two previous years combined.

The primary thrust of Commodore's research and development activities has been and continues to be in three major areas: Hardware Systems Design, Software Systems Design and Semiconductor Chip Design for advanced very large scale integrated circuits.

Hardware Systems Design

Two new products were designed and released to production in fiscal 1982: The "Commodore 64", a personal computer with 64K RAM and exceptional features for the price of \$595 and "The Max Machine", an under \$200 home computer/video game machine/music synthesizer aimed at the consumer market.

Three other products completed in design that will be in production early in the new fiscal year are the high end "P500", a 128K color personal computer, and the business oriented "B700" and dual microprocessor 16 bit "BX700" microcomputers, two very powerful computers that include on-board floppy disk drives and 128K and 256K of RAM, respectively.

These new products are supported by peripheral devices such as a Z80 card for implementing the more than 2,000 CP/M software programs on the Commodore 64 and a second Z80 card for multiprocessing on the "P500", "B700" and "BX700" microcomputers. Similarly an 8088 card has been designed for implementing CP/M-86 and MS/DOS software, as well as a new disk drive system using a 48 TPI mechanism that connects directly to the "B700" and "BX700" microcomputers' bus.

For 1983 a series of new proprietary systems are planned, including a family of advanced microprocessors and peripheral integrated circuits for high speed, low power battery operated microcomputer systems, and improved video graphics relative to anything heretofore offered. In addition, advanced microprocessor architecture investigation is well underway that could

lead to low cost 16 bit Commodore microcomputers.

Software Systems Design

A number of software projects were completed in fiscal 1982, including a new revision of BASIC that allows use of 256K of RAM, a low end BASIC for the Max Machine and a video package for the Commodore 64 and P500 microcomputers.

Planned for 1983 is extensive new language development and a network operating system. This will permit multiple users to share a common data base and peripheral equipment, i.e., large disk and printer. For example, in a classroom environment, a teacher can start all students with the same lesson and they, in turn, can continue at independent learning rates while the teacher may monitor individual activity and compile test results.

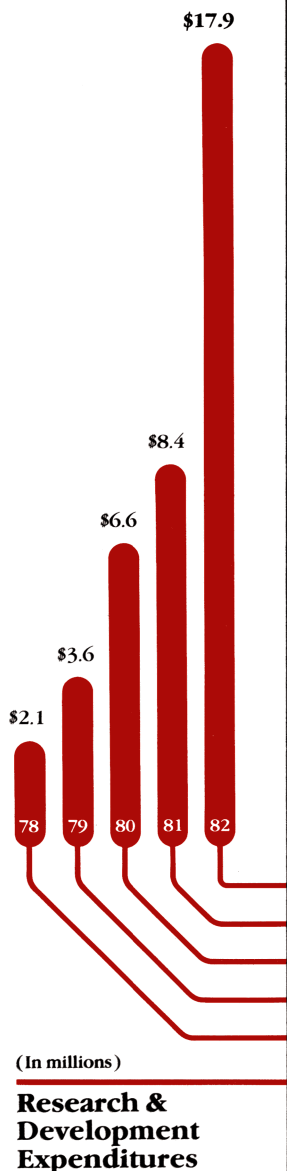
Semiconductor Chip Design

A series of new semiconductor components have been designed and released to production. These include:

- > 6509 Microprocessor used in the P500, B700 and BX700 microcomputers.
- > 6510 Microprocessor used in the Max Machine and Commodore 64.
- > 6525 I/O, interrupt controller.
- > 6526 I/O, timer device with clock used in all new systems.
- > 6566/68 Color video controller for the Max Machine.
- > 6567/69 Color video controller for the Commodore 64.
- > 6580/81 Sound chip.
- > 6703 Decoder used in the Max Machine.

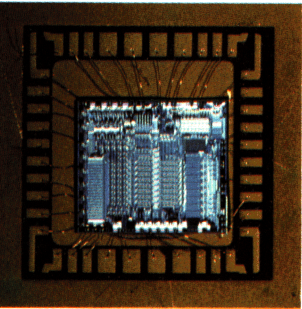
Planned for 1983 are a series of HMOS redesigns for cost reduction, new composite chips for a further cost reduction in the Commodore 64, new video chips and a series of CMOS chips for new low power applications. In addition, Commodore's development of a 16 bit microprocessor is progressing.

CP/M is a registered trademark of Digital Research, Inc.





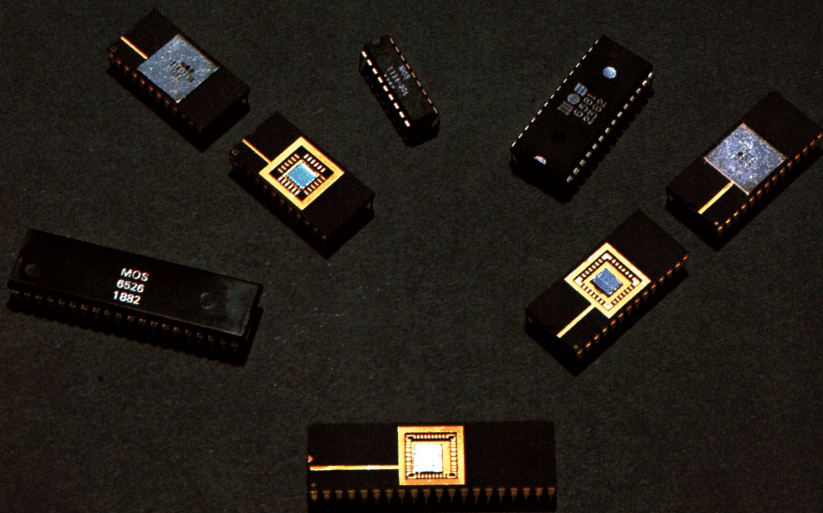
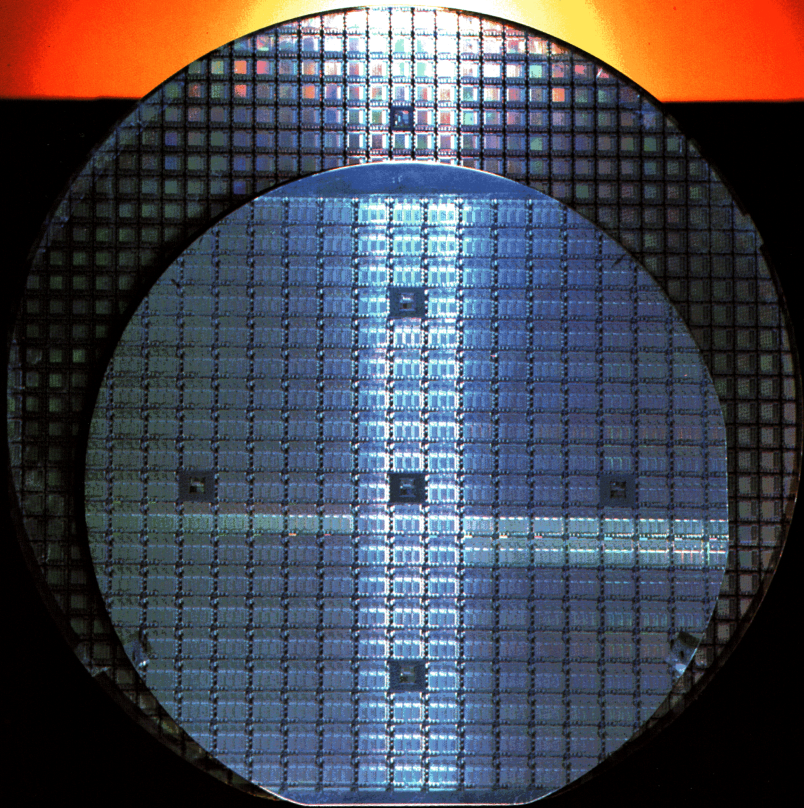
A wafer fabrication operator verifying a wafer alignment on state-of-the-art automatic projection alignment equipment at Commodore's MOS Technology division.



Above: An enlargement of one of the hundreds of semiconductor circuits on a silicon wafer.

Right: Pictured is a 4" silicon wafer set in front of a 5" silicon wafer. Commodore's MOS Technology facility in Costa Mesa, California, recently began manufacturing 5" silicon wafers where previously only 3" and 4" wafers were manufactured. The 5" silicon wafer size is a state-of-the-art manufacturing technique in the semiconductor industry. As a comparison, a 5" wafer has 782 potentially good 16K ROM circuits versus 496 circuits on a 4" wafer. This productivity increase has been achieved with only a fractional increase in manufacturing cost.

The bottom portion of the picture to the right shows various packaging configurations for Commodore manufactured microprocessors and ROM's.



Manufacturing

Commodore is committed to the concept of vertical integration, and has allocated sizable investments to the production of semiconductor integrated circuits, certain steel components for microcomputer and disk drive housings, as well as assembly facilities.

Semiconductor Manufacturing

Commodore owns and operates four semiconductor facilities: MOS Technology, with two manufacturing locations, Commodore Optoelectronics, and Commodore Hong Kong.

The major facility of MOS Technology is located in Norristown, Pennsylvania and occupies a 60,000 square foot plant. Using the manufacturing process known as N-Channel silicon gate, all of Commodore's microprocessors, including the 6502, are produced at this facility, as is a majority of Commodore's ROM (Read Only Memory chips) output.

A second MOS facility is located in Costa Mesa, California. This facility, housed in a 64,000 square foot plant, utilizes two manufacturing processes, C-MOS metal gate and N-Channel silicon gate.

Commodore Optoelectronics is located in Dallas, Texas. In its 30,000 square foot facility, this division produces liquid crystal displays (LCD's).

Commodore Hong Kong assembles and tests a significant percentage of all Commodore semiconductor devices in a brand new 66,000 square foot facility.

During fiscal 1982, Commodore expanded the production capacity of MOS Technology 150%. As a result, the Company produced over 50,000,000 semiconductor devices, including microprocessors and ROMs. A substantial portion of these devices were sold to outside customers, with the balance utilized in Commodore's microcomputer systems, software cartridges and other products.

To meet future anticipated needs, primarily for internal use in existing and new microcomputer systems and for software cartridges, a further 100% expansion of existing semiconductor facilities is planned for fiscal 1983.

This expansion is part of a continuing program that recently witnessed Commodore's MOS facility in Costa Mesa begin production of 5-inch silicon wafers where previously only 3- and 4-inch wafers were manufactured. We expect this

state-of-the-art manufacturing to lead to greater levels of productivity and further reduce the cost of components in Commodore microcomputer systems. A further discussion of this is contained in the caption for the picture to the left.

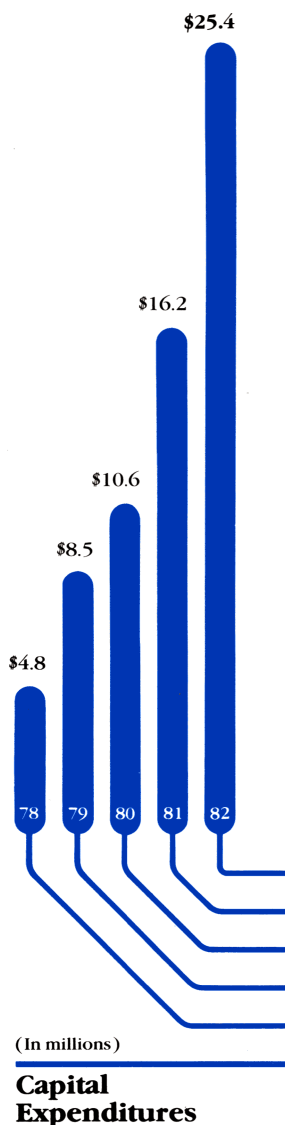
Computer Systems Manufacturing

Commodore microcomputer systems are currently designed and/or produced at three facilities. For the European market, a 60,000 square foot production facility in Braunschweig, West Germany is utilized, while all United States production occurs in Santa Clara, California at a 60,000 square foot facility. In addition, considerable product development and engineering for new Commodore computers occurs in Tokyo, Japan where VIC 20 boards, 1540 disk drives and the 8023, our 136 column highspeed printers are manufactured.

Prior to final microcomputer assembly, integrated circuits are shipped from Commodore's U.S. based semiconductor facilities to our new 66,000 square foot plant in Hong Kong where the chips are assembled, packaged and tested. The components are then, either in Hong Kong or Tokyo, inserted into the printed circuit boards that are then shipped to the three locations just discussed.

Over the last several months, production of a number of new microcomputer systems and peripheral devices was initiated, including the Commodore 64 personal computer, which has 64K RAM on board, the 2031 single floppy disk drive, the 8250 two megabyte double density, dual floppy disk drive, and two Winchester technology rigid disk drives, the 9060 and 9090, as well as a low cost modem.

As we enter fiscal 1983, Commodore has just concluded plans to lease an additional 175,000 square feet of manufacturing and warehousing space in West Chester, Pennsylvania to meet the increasing United States demand for existing and new microcomputer systems.



The first self-contained micro-computer systems were introduced approximately five years ago with the Commodore PET one of the original pioneering microcomputers. The initial microcomputers ranged in price from \$1,000 to \$2,000.

The initial buyers of these systems were people and organizations with a certain degree of computer literacy such as software programmers, hobbyists, and educational institutions. Students and small businesses were also buyers as educational institutions provided familiarization with computers to students, and programmers developed the software necessary for practical business applications.

Evolution

During the first four years of its existence, the microcomputer industry grew very rapidly, reaching annual sales in excess of \$1 billion in 1981 while the cumulative number of microcomputers produced and shipped over the 1977-1981 period approximated one million units. Most of these sales related to the original micro-computer systems developed during this period therefore representing first generation products.

In 1981, a series of new microcomputer systems was introduced by several companies, these systems offering numerous options as to price, memory, performance capabilities, and portability.

Market Definition

It was the new microcomputer systems introduced in 1981 that permitted clear market segmentation and definition of four major micro-computer user groups. While there was and continues to be some overlap among user groups, the four groups purchasing microcomputers included:

- | | |
|----------------|-------------------|
| 1) home | 3) personal |
| 2) educational | 4) small business |

Page 7 of this Report contains a brief discussion of each of these four groups.

The Commodore Position: 1977-1981

Until recently, Commodore offered three basic microcomputer systems for the various market segments just denoted:

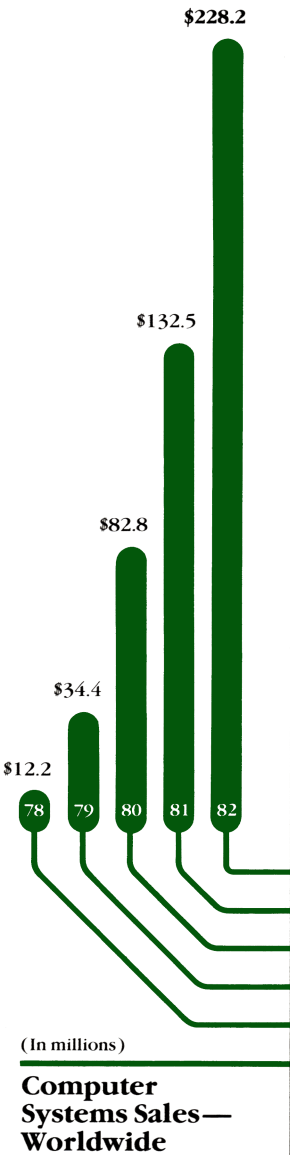
- > PET, introduced in 1977. Priced at \$995 and aimed at the educational market.
- > CBM, introduced in 1980. Priced at \$1,495 and aimed at the small business market.
- > VIC 20, introduced in 1981. Priced at under \$300 and aimed at the home and educational markets.

The first two microcomputers, while quite satisfactory for the 1977-1981 period, were limited in that the PET and CBM series did not offer color or portability, the latter related to the fact that both models had built-in display monitors.

The Commodore Position: 1982-1984

In response to the clearer definition of the market segments that emerged in 1981, Commodore's chip and hardware systems design engineers, working in tandem with each other, created a series of five new microcomputer systems, each designed to fill market segments not covered by the PET and CBM microcomputers, and intended to upgrade the PET and CBM series to the needs of the market in 1982 and thereafter.

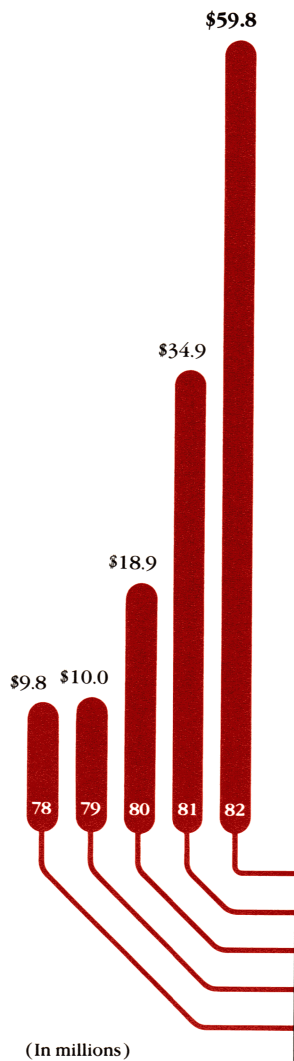
- > Commodore 64, began shipments in July, 1982. Full color, 40 column display, portable, 64K of built-in RAM, priced at under \$600.
- > The Max Machine, scheduled to begin shipments in Winter, 1982. Full color, 40 column display, membrane keyboard, portable, 2.5K of built-in RAM, priced at under \$200.
- > P500, scheduled to begin shipments in Winter, 1982. Full color, 40 column display, portable, 128K of built-in RAM, priced at under \$1,000.
- > B700, scheduled to begin shipments in Winter, 1982. Monochrome, built-in display monitor, 80 column display, dual disk drives with 340K of additional storage capacity, and 128K of built-in RAM, priced at under \$2,000.
- > BX700, scheduled to begin shipments in Winter, 1982. Monochrome, 16 bit microcomputer with dual 6509 and 8088 microprocessors and built-in display monitor, 80 column display, dual double density disk drives with 680K of additional storage capacity, 256K of built-in RAM, priced at under \$3,000.





The sale of a Commodore VIC 20 home computer is frequently accompanied by the sale of cartridge software and/or peripheral equipment such as a Datasette or printer, both of which are pictured, along with the VIC 20, to the left.

Commodore microcomputers, such as the PET (pictured to the right) and the VIC 20, are used by many major public and private school systems throughout the world.



(In millions)
Semiconductor Components Division Sales to Outside Customers



These new products expand the PET and CBM series to include:

- > the Commodore 64, a large memory, low price portable color microcomputer for the personal as well as lower end business/high end home market.
- > the Max Machine, a very low price portable color microcomputer for the home market.
- > the P500, a large memory, low price portable color microcomputer for the high end personal and low end business markets.
- > the B700 and BX700, two very large memory microcomputers for the small business market, both of which are priced at considerably less than any comparable microcomputers now on the market.

Marketing

Commodore currently markets its microcomputers to the business, personal and educational markets through approximately 1,500 dealers worldwide, of which 600 are located in the

United States. The VIC 20 home computer is marketed to consumers through the just noted dealer network and, commencing in the final months of fiscal 1982 just ended, through mass merchandisers, department stores, audio/hi fi stores, appliance stores, and other specialty retailers. With the recent introduction of the Commodore 64 and the other higher level microcomputer systems in the first half of fiscal 1983, Commodore intends to increase its share of the microcomputer market by focusing its marketing efforts on two areas:

- > increasing revenues from existing Commodore dealers by now offering them both a broader product range as well as higher-priced microcomputer systems for more advanced customer needs.
- > increasing the number of computer store dealers currently handling Commodore microcomputers, especially in the United States where Commodore's existing 600 dealer network represents less than 30% market penetration of the more than 2,000 computer stores now in operation.

In the home market, the number of retail outlets carrying the VIC 20 increased to over 5,000 by June 30, 1982.

The VIC 20 was, until recently, being test marketed by several of the largest mass merchandisers in the world. As a result of the favorable sell-through to consumers, these merchandisers have decided to expand the number of outlets carrying the VIC 20 in their respective store networks. It is expected that the number of retail outlets carrying the VIC 20 will increase further as the new fiscal year progresses.

Commodore's television advertising program began in March, 1982. To support future microcomputer system sales growth, Commodore intends to more than double its fiscal 1982 advertising budget in fiscal 1983.



The Commodore 64, pictured above, is a true personal computer in that it offers ease of portability for the individual who wishes to use it in both the office and the home. It is, in fact, compact enough to fit in one's attache case.

The Commodore B700 and BX700 microcomputers are designed for small businesses. They offer large built-in user memories and built-in disk drives for substantial additional mass storage capacity. They are considerably lower-priced than any other similar microcomputers now on the market yet offer numerous superiority features beyond price alone.



1982 Financial Report

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Financial Review

1982 Compared with 1981

Profitability Review

Commodore's income before extraordinary items reached a record \$40,600,000 in fiscal 1982 compared to \$24,900,000 in fiscal 1981. Operating profit as a percentage of sales improved to 16.7% in fiscal 1982 from 16.5% in fiscal 1981. Pre-tax earnings increased by \$20,000,000 in fiscal 1982 over 1981 primarily as a result of stronger demand for microcomputer systems.

Total sales were up 63% in fiscal 1982 versus 1981. Computer Systems sales increased by 72% over 1981, principally as a result of a higher volume of unit sales in the United States and abroad. Trade sales of Semiconductor Components increased by 71% over fiscal 1981, fueled by a strong demand for ROM's and microprocessors.

Operating expenses increased by 84% during fiscal 1982. Research and development costs in the semiconductor and systems and software design areas accounted for 24% of this increase, while advertising expenses, primarily for the VIC 20 television campaign, accounted for 43% of this increase. The remainder of the cost increase is attributable to the expansion of the Computer Systems and Semiconductor Components business.

Liquidity and Capital Resources

Working capital provided from operations was \$49,000,000 in fiscal 1982 compared to \$30,800,000 in fiscal 1981. The major component of this increase was provided by a gain in income before extraordinary items of \$15,700,000.

Capital expenditures during fiscal 1982 amounted to \$25,400,000 compared to \$16,200,000 in fiscal 1981. These expenditures were financed by a combination of sources, among them increases in capital lease obligations and borrowings under long-term credit agreements.

At 30 June 1982 Commodore Credit Inc., the finance subsidiary of Commodore Business Machines, Inc., became operational. This unconsolidated finance subsidiary will be used primarily to finance certain types of receivables generated through its parent company.

The Company expects to finance its capital additions, its investments in research and development and other operating costs from internally generated cash flows as well as from established credit lines and other available finance facilities.

1981 Compared with 1980

Profitability Review

Commodore's net earnings before extraordinary item increased to \$24,900,000 in fiscal 1981 from \$16,200,000 in fiscal 1980. Operating profits as a percentage of sales increased to 16.5% in fiscal 1981 from 14.6% in fiscal 1980.

Pretax earnings increased \$12,500,000 in fiscal 1981 versus 1980 and were primarily attributable to stronger product demand and changes in product mix. Net sales increased 48% in fiscal 1981 versus 1980. The Computer Systems business contributed substantially to the noted increase with a year-to-year increase of 60%. The introduction of several new, more powerful systems selling at higher average prices accounted for the improved margin and operating profits.

The Semiconductor Components Group also contributed significantly to overall profits in 1981. The capital expansion program initiated in 1980 permitted a quadrupling of the Group's productive capacity allowing trade sales to nearly double while meeting increased internal requirements.

Operating expenses increased by 65% during fiscal 1981. The increase in fiscal 1981 over 1980 is attributable to the intensified market effort including the reorganization of the U.S. distribution network, the increased development and penetration of the international distribution network, the increased expense relating to administering the Computer Systems business, and an expansion of the Company's research and development efforts with respect to new, high technology products.

Liquidity and Capital Resources

Short-Term Debt: Short-term debt at 30 June 1981 was \$6,800,000. The \$3,200,000 increase from 30 June 1980 reflects increased needs to support higher sales volumes.

Long-Term Debt: The \$7,700,000 increase in long-term debt at 30 June 1981 versus 1980 is primarily attributable to a \$5,200,000 increase in capital lease obligations, and a \$2,500,000 mortgage on the microcomputer manufacturing facility in Braunschweig, West Germany.

Five-Year Comparison of Selected Financial Data

Commodore International Limited and Subsidiaries
(000s omitted except per share amounts)

Year Ended 30 June	1982	1981	1980	1979	1978
Net sales	\$304,500	\$186,500	\$125,600	\$ 71,100	\$ 50,200
Gross profit	145,400	82,800	50,600	23,100	15,300
Operating expenses	88,400	48,100	29,100	13,000	9,000
Interest expense, net	6,200	3,900	3,200	2,100	1,100
	94,600	52,000	32,300	15,100	10,100
Income before income taxes and extraordinary item	50,800	30,800	18,300	8,000	5,200
Provision for income taxes:					
Taxes on income	10,200	5,900	3,800	2,000	1,800
Income after taxes on income, but before reversal of U.K. taxes	40,600	24,900	14,500	6,000	3,400
Reversal of U.K. taxes	—	—	1,700	—	—
Income before extraordinary item	40,600	24,900	16,200	6,000	3,400
Extraordinary item ⁽¹⁾	3,700	500	700	500	600
Net income	\$ 44,300	\$ 25,400	\$ 16,900	\$ 6,500	\$ 4,000
Earnings per share ⁽²⁾ :					
Income before extraordinary item ⁽³⁾	\$ 2.64	\$ 1.61	\$ 1.04	\$.41	\$.24
Extraordinary item ⁽¹⁾	.24	.03	.04	.04	.04
Net income	\$ 2.88	\$ 1.64	\$ 1.08	\$.45	\$.28
Weighted average shares ⁽²⁾	15,400	15,460	15,593	14,580	14,206
Total assets	\$235,400	\$145,100	\$ 88,900	\$ 57,500	\$ 38,000
Long-term debt	\$ 44,400	\$ 32,000	\$ 24,300	\$ 5,500	\$ 5,400

(1) Tax benefit of net operating loss carryforward.

(2) Earnings per share and weighted average shares for fiscal years 1978 through 1981 have been restated to reflect all stock splits.

(3) Includes \$.11 relating to reversal of U.K. taxes in fiscal 1980.

Common Stock Information

On 6 March 1981 the Company shares were listed on the New York Stock Exchange. Prior to that date, the Company shares were listed on the American Stock Exchange.

The high and low quarterly common stock prices for the past two fiscal years are as follows:

	Fiscal 1982 High-Low	Fiscal 1981 High-Low
First Quarter	30 ⁵ / ₈ -16 ¹ / ₈	20 ¹ / ₄ - 7 ¹ / ₈
Second Quarter	30 ⁵ / ₈ -22 ⁷ / ₈	35 ⁵ / ₈ -19 ¹ / ₂
Third Quarter	34 ¹ / ₈ -23 ¹ / ₄	32 ⁷ / ₈ -16
Fourth Quarter	40 ¹ / ₄ -28 ¹ / ₈	34 ¹ / ₂ -20 ³ / ₄

All common stock prices have been adjusted to reflect stock splits during fiscal 1982 and 1981.



(In millions)

**Working
Capital**

Consolidated Statements of Operations

Commodore International Limited and Subsidiaries
(000s omitted except per share amounts)

Year Ended 30 June	1982	1981	1980
Net sales	\$304,500	\$186,500	\$125,600
Cost of sales	159,100	103,700	75,000
Gross profit	145,400	82,800	50,600
Operating expenses:			
Selling	52,400	25,500	11,200
General and administrative	18,100	14,200	11,300
Research and development (Note 1)	17,900	8,400	6,600
	88,400	48,100	29,100
Income from operations	57,000	34,700	21,500
Interest expense, net of interest income of \$4,900, \$3,500 and \$2,300	6,200	3,900	3,200
Income before income taxes and extraordinary item	50,800	30,800	18,300
Provision for income taxes (Note 2):			
Taxes on income	10,200	5,900	3,800
Income after taxes on income but before reversal of U.K. taxes	40,600	24,900	14,500
Reversal of U.K. taxes	—	—	1,700
Income before extraordinary item	40,600	24,900	16,200
Extraordinary item (Note 2)	3,700	500	700
Net income	\$ 44,300	\$ 25,400	\$ 16,900
Earnings per share (Note 1):			
Income before extraordinary item (includes \$.11 relating to reversal of U.K. taxes in 1980)	\$ 2.64	\$ 1.61	\$ 1.04
Extraordinary item	.24	.03	.04
Net income	\$ 2.88	\$ 1.64	\$ 1.08

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Commodore International Limited and Subsidiaries
(000s omitted)

	30 June 1982	30 June 1981
Assets		
Current Assets:		
Cash, including certificates of deposit	\$ 6,800	\$ 9,500
Accounts receivable, net of \$3,800 and \$1,900, respectively	81,500	48,100
Inventories (Note 1)	92,300	52,800
Prepaid expenses	1,700	1,300
Total current assets	182,300	111,700
Property and equipment , at Cost (Notes 1, 5 and 7)	68,600	45,000
Less—accumulated depreciation and amortization	19,000	12,300
	49,600	32,700
Investment in unconsolidated finance subsidiary (Note 3)	2,000	—
Other assets	1,500	700
	\$235,400	\$145,100
Liabilities and Shareholders' Equity		
Current Liabilities:		
Loans payable (Note 4)	\$ 3,500	\$ 3,900
Current portion of long-term debt	4,500	2,900
Accounts payable	52,000	28,500
Accrued liabilities	13,100	8,600
Income taxes payable (Note 2)	10,100	6,300
Total current liabilities	83,200	50,200
Long-term debt (Notes 5 and 7)	44,400	32,000
Deferred income taxes (Note 2)	1,900	1,300
Shareholders' Equity (Note 6):		
Common stock, \$.01 and \$1 par value, respectively		
Authorized—45,000,000 and 15,000,000 shares, respectively		
Issued and outstanding—15,210,000 and 10,100,000 shares, respectively	200	10,100
Contributed surplus	10,700	600
Retained earnings (Note 5)	95,200	50,900
Treasury stock (Note 9)	(200)	—
Total shareholders' equity	105,900	61,600
	\$235,400	\$145,100

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Commodore International Limited and Subsidiaries
(000s omitted)

	Common Stock	Contributed Surplus	Retained Earnings	Treasury Stock	Total
	(Note 6)			(Note 9)	
Balance, 30 June 1979	\$ 1,500	\$ 3,700	\$15,600	\$ —	\$ 20,800
Net income	—	—	16,900	—	16,900
Issuance of shares pursuant to stock splits	1,800	(1,800)	—	—	—
Exercise of employee stock options	100	200	—	—	300
Retirement of common shares	(100)	(800)	(1,600)	—	(2,500)
Balance, 30 June 1980	3,300	1,300	30,900	—	35,500
Net income	—	—	25,400	—	25,400
Issuance of shares pursuant to stock splits	6,700	(1,300)	(5,400)	—	—
Exercise of employee stock options	100	200	—	—	300
Compensation related to employee stock options	—	400	—	—	400
Balance, 30 June 1981	10,100	600	50,900	—	61,600
Net income	—	—	44,300	—	44,300
Reduction in par value from \$1.00 to \$.01	(10,000)	10,000	—	—	—
Issuance of shares pursuant to stock splits	100	(100)	—	—	—
Exercise of employee stock options	—	200	—	—	200
Acquisition of treasury shares pursuant to court order	—	—	—	(200)	(200)
Balance, 30 June 1982	\$ 200	\$10,700	\$95,200	\$ (200)	\$105,900

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

Commodore International Limited and Subsidiaries
(000s omitted)

Year Ended 30 June	1982	1981	1980
Working Capital was Provided by:			
Income before extraordinary item	\$40,600	\$24,900	\$16,200
Items not requiring working capital—depreciation and amortization	7,800	4,600	3,500
Deferred income taxes	600	1,300	(1,700)
Total working capital provided by operations	49,000	30,800	18,000
Extraordinary item	3,700	500	700
Increase in long-term debt	16,900	10,600	19,800
Net book value of property and equipment retired	700	300	200
Common stock issued upon exercise of stock options	200	300	300
Compensation related to employee stock options	—	400	—
(Increase) decrease in other assets	(800)	(300)	200
Total working capital provided	69,700	42,600	39,200
Working Capital was Applied to:			
Purchase of property and equipment	25,400	16,200	10,600
Investment in unconsolidated finance subsidiary (Note 3)	2,000	—	—
Cost in excess of fair value of net assets of acquisition	—	—	(1,000)
Common stock transactions (Note 6)	—	—	2,500
Transfer of long-term debt to current portion	4,500	2,900	1,000
Acquisition of treasury shares (Note 9)	200	—	—
Total working capital applied	32,100	19,100	13,100
Increase in working capital	\$37,600	\$23,500	\$26,100
Increases (Decreases) in Working Capital:			
Current assets—			
Cash	\$(2,700)	\$ 4,400	\$ 2,500
Accounts receivable	33,400	22,800	10,000
Inventories	39,500	16,700	13,100
Prepaid expenses	400	700	100
	70,600	44,600	25,700
Current liabilities—			
Loans payable	(400)	1,300	(9,000)
Current portion of long-term debt	1,600	1,900	(1,300)
Accounts payable and accrued liabilities	28,000	15,800	7,300
Income taxes payable	3,800	2,100	2,600
	33,000	21,100	(400)
Increase in working capital	37,600	23,500	26,100
Working capital, beginning of year	61,500	38,000	11,900
Working capital, end of year	\$99,100	\$61,500	\$38,000

Notes to Consolidated Financial Statements

Commodore International Limited and Subsidiaries
30 June 1982

1. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Commodore International Limited and its U.S. and non-U.S. subsidiaries, except for Commodore Credit Inc., the Company's finance subsidiary as its operations are dissimilar to the manufacturing and marketing operations of the consolidated group. All significant intercompany transactions have been eliminated.

Currency Translation

The consolidated financial statements are expressed in United States currency. Monetary assets and liabilities denominated in other than U.S. dollars are translated at year-end exchange rates and non-monetary assets are translated at historical rates. Income and expenses are translated at average rates prevailing during the year except cost of sales and depreciation which are translated at historical rates. Gains or losses resulting from translation are included in the consolidated statements of operations. Such gains and losses were not material.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out) or market, and are inclusive of material, labor and overhead. Intercompany profits are eliminated from inventory valuations. Inventories as of 30 June 1982 and 1981 were (000s omitted):

	1982	1981
Finished goods	\$44,800	\$26,800
Raw materials and work-in-process	47,500	26,000
	\$92,300	\$52,800

Research and Development Costs

The Company expenses all research and development costs as incurred.

Investment Tax Credit

The "flow through" method is used to account for U.S. investment tax credits. Under this method, the

credit is recognized as a reduction of the provision for income taxes in the year in which the credit is utilized.

Property and Equipment

Major classes of property and equipment are as follows (000s omitted):

Description	30 June		Estimated
	1982	1981	Useful Lives
Land	\$ 1,800	\$ 1,800	
Machinery and equipment	49,100	31,100	3-10 Years
Buildings and improvements	6,900	6,300	25-40 Years
Furniture and fixtures	3,000	1,700	5-10 Years
Tooling	3,300	2,600	4 Years
Leasehold improvements	4,500	1,500	Life of Lease
	\$68,600	\$45,000	

Depreciation has been provided using primarily the straight-line method over the estimated useful lives of the assets for financial reporting purposes. Expenditures for additions, renewals and betterments are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts. Any gain or loss is included in the consolidated statements of operations.

Earnings Per Share

Earnings per share is calculated using the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each year. The weighted average number of shares used to compute earnings per share was 15,400,000, 15,460,000 and 15,593,000 in 1982, 1981 and 1980, respectively. The weighted average number of shares for 1981 and 1980 have been restated to reflect stock splits issued during the periods (see Note 6). The difference between primary and fully diluted earnings per share was not significant in each period.

2. Income Taxes

The provision for income taxes consisted of the following (000s omitted):

	1982	1981	1980
Provision for U.S. federal income taxes	\$ 6,900	\$2,100	\$2,000
Provision for U.S. state income taxes	1,500	1,000	300
Provision for non-U.S. income taxes	1,800	2,800	1,500
Reversal of U.K. taxes re "Stock Relief"	—	—	(1,700)
	\$10,200	\$5,900	\$2,100

Non-U.S. earnings before income taxes and extraordinary items amounted to \$40,800,000 in 1982, \$36,700,000 in 1981 and \$20,100,000 in 1980.

The difference between the statutory U.S. Federal income tax rate and the Company's effective tax rate is explained below (000s omitted):

	1982		1981		1980	
	Amount	Percent of Income	Amount	Percent of Income	Amount	Percent of Income
United States statutory rate	\$23,400	46%	\$14,200	46%	\$8,400	46%
Increases (reductions):						
Net effect of non-U.S. tax rates	(1,500)	(3)	(3,600)	(12)	(600)	(4)
U.S. state income taxes, net of federal tax benefit	800	2	500	2	100	1
Subsidiaries incorporated in a jurisdiction which does not levy income taxes	(12,500)	(25)	(6,400)	(21)	(6,400)	(35)
Losses not included in U.S. consolidated tax return	—	—	1,700	6	1,900	10
Reversal of U.K. taxes	—	—	—	—	(1,700)	(9)
Other, net	—	—	(500)	(2)	400	2
	\$10,200	20%	\$ 5,900	19%	\$2,100	11%

Utilization of prior year loss carryforwards in the U.S. and certain other countries has been treated as an extraordinary item in the consolidated statements of operations. At 30 June 1982 the Company's U.S. subsidiary had net operating loss carryforwards of approximately \$8,000,000 avail-

able to reduce future taxable income. These carryforwards expire after 1990.

The Company also has approximately \$2,000,000 of U.S. investment tax credit carryforwards, which expire in years after 1990.

3. Commodore Credit Inc.

On 30 June 1982, a subsidiary of the Company entered into an operating agreement with Commodore Credit Inc., a finance subsidiary. The investment in this subsidiary is carried on the equity basis. The finance subsidiary from time to time may purchase receivables without recourse from the subsidiary. The Company is reimbursed for certain administrative services rendered to the finance subsidiary and is required to maintain net earnings of the finance subsidiary at a multiple of fixed charges.

Condensed financial information for the finance subsidiary as of 30 June 1982 is as follows (000s omitted):

	1982
Assets:	
Cash	\$ 250
Accounts receivable	11,750
	\$12,000
Liabilities & Shareholders Equity:	
Notes payable	\$10,000
Shareholders' equity	2,000
	\$12,000

4. Loans Payable

At 30 June 1982, the Company had unused lines of credit from U.S. banks, aggregating \$18,000,000, which permit borrowings at interest rates that generally reflect the banks' prime rate. In addition, the Company had unused lines of credit with international banks totaling \$33,400,000. Interest rates on these borrowings vary from country to country depending on local conditions.

A portion of the Company's cash balances serves to compensate such banks for credit lines and services. These balances are not legally restricted.

The maximum month-end borrowings for

loans payable during 1982 were \$43,000,000 (1981—\$27,900,000; 1980—\$16,400,000). The average borrowings outstanding during 1982 were \$29,600,000 (1981—\$17,100,000; 1980—\$10,700,000) at a weighted average interest rate of 16.4% (1981—17.8%; 1980—14.4%). As of 30 June 1982 the weighted average interest rate was 15.3% (1981—13.2%; 1980—12.7%).

5. Long-Term Debt

(000s omitted)	1982	1981
Revolving credit:		
due July, 1985-1989	\$10,000	\$ 7,000
due July, 1983	5,000	5,000
due June, 1984-1986	5,000	5,000
due June, 1983-1987	5,000	2,000
due September, 1984-1986	3,100	—
due December, 1982	—	2,000
Real estate mortgages, 9.5% to 9.75%, due in varying amounts through 2005	3,200	3,300
Capitalized equipment lease obligations averaging 8.0% (8.9% in 1981) payable in varying amounts through 1987	16,900	10,600
Other	700	—
	\$48,900	\$34,900
Less current portion	4,500	2,900
	\$44,400	\$32,000

At 30 June 1982, the Company's various bank credit agreements provide for borrowings up to \$28,100,000 in revolving credit with pricing options based on the prime rate, London Interbank Offered Rate (LIBOR), banker's acceptances and cost of funds. At 30 June 1982, the full amount of available commitments was outstanding. The weighted average interest rate on long-term bank debt as

of 30 June 1982 was 15.48% (1981—20.85%).

The revolving credit agreements have maturities ranging from June, 1983 through July, 1985, at which time the outstanding amounts will be repaid in full, or, at the Company's option, in quarterly or semi-annual installments from June, 1986 through July, 1989.

Among other restrictions, the various revolving credit agreements require the Company to maintain certain financial ratios and minimum levels of working capital and net worth. Retained earnings available for dividends and the acquisition of capital stock totaled \$34,900,000 at 30 June 1982. Certain of the agreements also require the Company to maintain compensating balances. Such funds are not legally restricted.

Approximate annual maturities of long-term debt at 30 June 1982 are as follows (000s omitted):

1983	\$ 4,500
1984	10,900
1985	10,000
1986	11,600
1987	5,100
Later years	6,800
	\$48,900

6. Common Stock

In November, 1981 the Company's shareholders approved an increase in the authorized number of common shares to 45,000,000 shares, and changed the \$1 par value per share to \$.01 stated value.

In fiscal 1980, the Company reacquired and retired 45,000 shares (450,000 shares after stock splits) of its common stock as a result of an adjustment to the purchase price of a prior acquisition. This resulted in the elimination of the remaining cost in excess of fair value of net assets acquired from such acquisition.

Stock Splits

In May, 1982 a three-shares-for-two stock split was made in the form of a stock dividend by the issuance of one additional share for each two shares outstanding. In November 1980, a three-for-one stock split was effected in the form of a stock dividend by the issuance of two additional shares of common stock for each share then outstanding. The number of shares and per share amounts have been restated to reflect such distributions.

Stock Option Plans

The Company has two stock option plans in effect at 30 June 1982. The 1974 Plan, which was designed to qualify under Section 422 of the U.S. Internal Revenue Code, as amended, provides that options were to be granted at market value, expire in five

years, and be exercisable in cumulative annual increments of 33%, nine months after the date of grant. There are no further shares available for grant under this Plan.

Options outstanding under this plan at 30 June 1982 were held by 10 employees and range in exercise price per share from \$1.78 to \$5.05. These options expire on various dates from December, 1983 to January, 1985. There were 67,874 and 73,688 shares exercisable under the terms of the Plan at 30 June 1982 and 1981, respectively.

A summary of transactions during 1982 and 1981 relating to the 1974 Plan is shown below:

	Number of Shares	Average Price Per Share	Total
Outstanding at 30 June 1980	306,000	\$ 2.60	\$ 797,000
Exercised	(120,000)	2.18	(261,000)
Cancelled	(1,125)	2.67	(3,000)
Outstanding at 30 June 1981	184,875	2.88	533,000
Exercised	(92,813)	2.35	(218,000)
Cancelled	(12,938)	2.78	(36,000)
Outstanding at 30 June 1982	79,124	\$ 3.53	\$ 279,000

The 1980 Plan, which was approved by the shareholders in November, 1980, provides for certain officers and key employees to purchase up to 1,125,000 shares of the Company's common stock. Options expire in six years and are generally exercisable in annual increments of 20% beginning one year from the grant date. At 30 June 1982, options were held by 37 employees and range in exercise price per share from \$3.85 to \$35.13.

These options expire on various dates from November, 1985 to May, 1988.

There were 35,440 shares exercisable under the terms of the Plan at 30 June 1982. Option activity relating to the 1980 Plan from 30 June 1980 through 30 June 1982 is shown below:

	Number of Shares	Average Price Per Share	Total
Outstanding at 30 June 1980	147,375	\$ 6.43	\$ 947,000
Granted	208,200	17.08	3,556,000
Exercised	(6,075)	5.10	(31,000)
Cancelled	(85,500)	7.42	(634,000)
Outstanding at 30 June 1981	264,000	14.53	3,838,000
Granted	150,400	27.20	4,091,000
Exercised	(3,800)	4.52	(17,000)
Cancelled	(146,550)	18.51	(2,714,000)
Outstanding at 30 June 1982	264,050	\$19.69	\$5,198,000

During 1982, 1980 and 1979, the Board of Directors approved certain options. At 30 June 1982 options to purchase (i) 10,125 shares at a price per share of \$.88, under substantially the same terms as the 1980 Plan, were held by one person; (ii) 42,750 shares at an average price per share of \$2.34 (exercise prices range from \$1.98 to \$2.67), under substantially the same terms as the 1974 Plan, were held by two persons; and (iii) 37,500 shares at \$20.00 per share at any time until September 9, 1984 were held by one person. As of 30 June 1982, 86,325 shares were exercisable. These options expire on various dates from July, 1984 to September, 1985.

The Company recognizes as compensation expense the difference between the quoted market price of the stock at the date of grant and the option price to be paid by an employee. In this regard, the Company recognized \$400,000 as compensation expense in fiscal 1981.

7. Leases

The Company leases certain machinery and equipment, manufacturing facilities, warehousing, and administrative offices with terms expiring at various dates to 2001. Typically, the Company pays property taxes, and insurance and maintenance expenses related to the leased property. The gross value of property (principally machinery and equipment) included under capital leases as of 30 June 1982 and 1981 is \$22,700,000 and \$13,400,000, respectively. The related accumulated amortization at 30 June 1982 and 1981 is \$6,300,000 and \$2,900,000, respectively. Amortization expense of property under capital leases was \$3,400,000 and \$1,500,000 in 1982 and 1981, respectively. Total rental expense under operating leases was

\$2,500,000 in 1982, \$2,500,000 in 1981, and \$1,200,000 in 1980. Minimum future obligations on leases at 30 June 1982 are as follows (000s omitted):

	Capital Leases	Operating Leases
1983	\$ 5,200	\$ 2,900
1984	5,000	2,500
1985	4,800	2,200
1986	3,700	1,900
1987	1,200	1,600
Later Years	—	10,200
Total minimum obligations	\$19,900	\$21,300
Less amounts representing interest	3,000	
Present value of net minimum obligations	\$16,900	

8. Product Group and Geographic Segment Information

Product Segments

(000s omitted)	Computer Systems	Consumer Products	Semi- conductor Components	Office Equipment	Eliminations	Consolidated
1982						
Sales to unaffiliated customers	\$228,200	\$ 4,000	\$59,800	\$12,500	\$ —	\$304,500
Intersegment sales	—	—	14,200	2,200	(16,400)	—
Net sales	\$228,200	\$ 4,000	\$74,000	\$14,700	\$(16,400)	\$304,500
Income (loss) from operations	\$ 53,600	\$(2,500)	\$ 6,800	\$(100)	\$ (800)	\$ 57,000
Interest expense, net						(6,200)
Income before income taxes and extraordinary item						\$ 50,800
Identifiable assets	\$175,700	\$ 3,100	\$49,800	\$ 8,700	\$(1,900)	\$235,400
Depreciation expense	\$ 2,400	\$ 100	\$ 4,700	\$ 600	—	\$ 7,800
Capital expenditures	\$ 4,900	—	\$19,800	\$ 700	—	\$ 25,400
1981						
Sales to unaffiliated customers	\$132,500	\$ 8,200	\$34,900	\$10,900	\$ —	\$186,500
Intersegment sales	—	—	8,900	3,200	(12,100)	—
Net sales	\$132,500	\$ 8,200	\$43,800	\$14,100	\$(12,100)	\$186,500
Income (loss) from operations	\$ 34,800	\$(5,000)	\$ 4,900	\$ 100	\$ (100)	\$ 34,700
Interest expense, net						(3,900)
Income before income taxes and extraordinary item						\$ 30,800
Identifiable assets	\$ 88,300	\$ 9,200	\$35,000	\$13,800	\$ (1,200)	\$145,100
Depreciation expense	\$ 1,500	\$ 100	\$ 2,600	\$ 400	\$ —	\$ 4,600
Capital expenditures	\$ 3,700	\$ —	\$ 9,600	\$ 2,900	\$ —	\$ 16,200
1980						
Sales to unaffiliated customers	\$ 82,800	\$11,100	\$18,900	\$12,800	\$ —	\$125,600
Intersegment sales	—	—	9,300	2,600	(11,900)	—
Net sales	\$ 82,800	\$11,100	\$28,200	\$15,400	\$(11,900)	\$125,600
Income (loss) from operations	\$ 25,500	\$(6,900)	\$ 2,400	\$ 1,500	\$ (1,000)	\$ 21,500
Interest expense, net						(3,200)
Income before income taxes and extraordinary item						\$ 18,300
Identifiable assets	\$ 53,300	\$13,700	\$19,700	\$ 5,900	\$ (3,700)	\$ 88,900
Depreciation expense	\$ 1,000	\$ 300	\$ 1,800	\$ 200	\$ —	\$ 3,300
Capital expenditures	\$ 4,900	\$ 300	\$ 4,700	\$ 700	\$ —	\$ 10,600

In fiscal 1982, one customer of the Semiconductor Components segment accounted for 12.8% of consolidated net sales.

Geographic Segments

(000s omitted)	North America	Europe	Asia	Eliminations	Consolidated
1982					
Sales to unaffiliated customers	\$174,300	\$106,000	\$24,200	\$ —	\$304,500
Intersegment sales	47,300	4,000	65,500	(116,800)	—
Net sales	\$221,600	\$110,000	\$89,700	\$(116,800)	\$304,500
Income (loss) from operations	\$ 17,800	\$ 47,200	\$ 1,100	\$ (9,100)	\$ 57,000
Interest expense, net					(6,200)
Income before income taxes and extraordinary item					\$ 50,800
Identifiable assets	\$140,300	\$ 79,200	\$28,000	\$ (12,100)	\$235,400
Depreciation expense	\$ 6,500	\$ 700	\$ 600	\$ —	\$ 7,800
Capital expenditures	\$ 20,900	\$ 2,900	\$ 1,600	\$ —	\$ 25,400
1981					
Sales to unaffiliated customers	\$ 75,200	\$ 85,600	\$25,700	\$ —	\$186,500
Intersegment sales	50,300	—	14,000	(64,300)	—
Net sales	\$125,500	\$ 85,600	\$39,700	\$ (64,300)	\$186,500
Income (loss) from operations	\$ 2,800	\$ 31,200	\$ 2,100	\$ (1,400)	\$ 34,700
Interest expense, net					(3,900)
Income before income taxes and extraordinary item					\$ 30,800
Identifiable assets	\$ 81,800	\$ 44,700	\$21,700	\$ (3,100)	\$145,100
Depreciation expense	\$ 3,900	\$ 300	\$ 400	\$ —	\$ 4,600
Capital expenditures	\$ 13,200	\$ 2,200	\$ 800	\$ —	\$ 16,200
1980					
Sales to unaffiliated customers	\$ 45,900	\$ 60,800	\$18,900	\$ —	\$125,600
Intersegment sales	44,500	—	18,800	(63,300)	—
Net sales	\$ 90,400	\$ 60,800	\$37,700	\$ (63,300)	\$125,600
Income (loss) from operations	\$ 3,600	\$ 18,100	\$ 1,600	\$ (1,800)	\$ 21,500
Interest expense, net					(3,200)
Income before income taxes and extraordinary item					\$ 18,300
Identifiable assets	\$ 52,400	\$ 31,200	\$11,200	\$ (5,900)	\$ 88,900
Depreciation expense	\$ 2,800	\$ 100	\$ 400	\$ —	\$ 3,300
Capital expenditures	\$ 9,000	\$ 600	\$ 1,000	\$ —	\$ 10,600

9. Litigation

In January, 1981, the Company brought suit in the California Superior Court against a former employee, seeking return of 81,000 of the Company's shares which were improperly received and retained by him upon exercise of stock options. The former employee filed a cross complaint against both the Company and Jack Tramiel, President, based on an alleged breach of contract, seeking compensatory damages of not less than \$2,500,000 and punitive damages of not less than \$150,000,000. The Company's claim for the return of the shares

was decided January 8, 1982 in the Company's favor and the Company has received the 81,000 shares and placed them in its treasury. The former employee's cross complaint against the Company has not yet been tried. Until the cross complaint is tried, final judgment cannot be entered, thus extending the former employee's time to appeal from the adverse judgment against him in connection with the 81,000 shares. Based on current information and the opinion of counsel, the Company believes there will be no recovery on the cross complaint.

10. Related Party Transactions

Certain individuals who are, by definition, considered to be related parties, have conducted business transactions with the Company as individuals and/or through unaffiliated business entities of which they are principals. The Company believes

that all such transactions were consummated on terms equivalent to those prevailing in arm's-length transactions and that aggregate related party transactions do not represent a material portion of the Company's normal business transactions.

11. Quarterly Financial Information—(unaudited) (000s omitted)

For the Year Ended 30 June 1982	First	Second	Third	Fourth	Year
Net sales	\$54,150	\$70,056	\$82,130	\$98,164	\$304,500
Gross profit	\$25,999	\$29,430	\$41,553	\$48,418	\$145,400
Income from operations	\$ 9,070	\$11,605	\$13,719	\$16,406	\$ 50,800
Provision for income taxes	1,790	2,300	2,762	3,348	10,200
Income before extraordinary item	7,280	9,305	10,957	13,058	40,600
Extraordinary item ⁽¹⁾	300	—	209	3,191	3,700
Net income	\$ 7,580	\$ 9,305	\$11,166	\$16,249	\$ 44,300
Earnings per share: ⁽²⁾					
Before extraordinary item	\$.47	\$.61	\$.71	\$.85	\$ 2.64
Extraordinary item	.02	—	.01	.21	.24
Net income	\$.49	\$.61	\$.72	\$ 1.06	\$ 2.88
For the Year Ended 30 June 1981					
Net sales	\$35,212	\$45,050	\$50,215	\$56,023	\$186,500
Gross profit	\$15,606	\$18,337	\$22,040	\$26,817	\$ 82,800
Income from operations	\$ 5,749	\$ 7,365	\$ 8,270	\$ 9,416	\$ 30,800
Provision for income taxes	1,232	1,578	1,445	1,645	5,900
Income before extraordinary item	4,517	5,787	6,825	7,771	24,900
Extraordinary item ⁽¹⁾	—	—	—	500	500
Net income	\$ 4,517	\$ 5,787	\$ 6,825	\$ 8,271	\$ 25,400
Earnings per share: ⁽²⁾					
Before extraordinary item	\$.29	\$.38	\$.44	\$.50	\$ 1.61
Extraordinary item	—	—	—	.03	.03
Net income	\$.29	\$.38	\$.44	\$.53	\$ 1.64

⁽¹⁾ Tax benefit of net operating loss carryforward.

⁽²⁾ Per share amounts have been restated to reflect stock splits issued through 30 June 1982.

Auditors' Report

To the Shareholders of Commodore International Limited:

We have examined the consolidated balance sheets of Commodore International Limited (a Bahamian Corporation) and consolidated subsidiaries as of 30 June 1982 and 1981, and the related consolidated statements of operations, shareholders' equity and changes in financial position for each of the three years ended 30 June 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Commodore International Limited and consolidated subsidiaries as of 30 June 1982 and 1981, and the results of their operations and changes in their financial position for each of the three years ended 30 June 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Philadelphia, PA
3 August 1982

Arthur Andersen & Co.

Corporate Information

Board of Directors

Irving Gould
Chairman of the Board

Jack Tramiel
President
and Chief Executive Officer

Burton Winberg
President
Rockport Holding, Limited

Leonard I. Schreiber
Attorney at Law

Ralph D. Seligman
Attorney at Law
Seligman, Maynard & Co.

Officers

Irving Gould
Chairman of the Board

Jack Tramiel
President
and Chief Executive Officer

Bernhard W. Witter
Vice President, Finance,
Secretary and Treasurer

Alfred T. Duncan
Vice President

Robert Gleadow
Vice President

Donald R. Richard
Vice President

Taro Tokai
Vice President

Alan H. Friedman
Corporate Controller

William M. Murray
Assistant Treasurer

Head Office

Commodore International Limited
Sassoon House
Shirley & Victoria
P.O. Box N-10256
Nassau, Bahamas

Executive Office

Commodore International Limited
Valley Forge Corporate Center
950 Rittenhouse Road
Norristown, Pennsylvania 19403

Subsidiaries

Commodore Business Machines, Inc.

Systems Sales Division

487 Devon Park Drive
Wayne, Pennsylvania 19087

3300 Scott Blvd.
Santa Clara, California 95050

1701 E. Edinger, Suite 15E
Santa Ana, California 92708

761 Fifth Avenue
King of Prussia, Pennsylvania 19406

4350 Beltwood Parkway, South
Dallas, Texas 75234

2246 N. Palmer Drive
Schaumburg, Illinois 60195

Components Division

MOS Technology

Valley Forge Corporate Center
950 Forge Corporate Center
Norristown, Pennsylvania 19403

2955 Airway Avenue
Costa Mesa, California 92626

Commodore Optoelectronics
4350 Beltwood Parkway South
Dallas, Texas 75234

Commodore Credit Inc.
487 Devon Park Drive
Wayne, Pennsylvania 19087

Commodore Realty Inc.
487 Devon Park Drive
Wayne, Pennsylvania 19087

Commodore Business Machines,
Limited
3370 Pharmacy Ave
Agincourt, Ontario, M1W 2K4 Canada
Commodore Business Machines, U.K.
Limited

675 Ajax Avenue
Slough, Berkshire, England
SL1 4BG

Commodore Leasing Limited
675 Ajax Avenue
Slough, Berkshire, England
SL1 4BG

Commodore Electronics Limited

Sassoon House
Shirley & Victoria
P.O. Box N 10256
Nassau, Bahamas

Branches

Dufourstrasse 11
Basel 4010
Switzerland
15/F Tsuen Wan Industrial Centre
220-248 Texaco Rd
Tsuen Wan
New Territories, Hong Kong

Commodore Buromaschinen GmbH
Lyoner Str. 38
Postfach 710126
6000 Frankfurt
West Germany
Ernst-Amme-Strasse 24-26
3300 Braunschweig
West Germany

Commodore A.G. Schweiz
Aeschenvorstadt 57
4010 Basel, Switzerland

Commodore Italiana S.R.L.
Via Conservatoria 22
Milano 20122
Italy

Commodore Computer B.V.
Marksingel
2e4811 N.V. Breda
Postbus 720
4803aS Breda
Netherlands

Commodore Computer N.V.S.R.
Avenue Des Bicassines
1160 Brussels, Belgium

Commodore Electronics (HK) Limited
15/F Tsuen Wan Industrial Centre
220-248 Texaco Road
Tsuen Wan
New Territories, Hong Kong

Commodore Japan Limited
Sumitomo Higashi-Sinbashi Building 5F
1-11, Hammamatsu-Cho 1-chome,
Minato-ku
Tokyo 105, Japan

Castlejur Pty Limited
3 Campbell Street
Artarmon, New South Wales 2064
Australia

Transfer Agents and Registrars

Canadian Imperial Bank of
Commerce Trust Company
New York, New York

Canadian Imperial Bank of Commerce
Trust Company (Bahamas) Limited
Nassau, Bahamas

Auditors

Arthur Andersen & Co.
Philadelphia, Pennsylvania

Counsel

Seligman Maynard & Co.
Nassau, Bahamas

Baker & McKenzie
New York, New York

Davies, Ward & Beck
Toronto, Ontario

Leonard I. Schreiber
Westport, Connecticut

Shares Listed

New York Stock Exchange
(Ticker Symbol CBU)

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